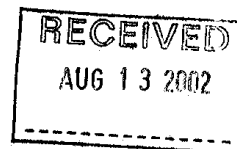




COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

August 12, 2002



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM:

Acting for

Charles O. Rossotti
Commissioner of Internal Revenue

Podulenzee

SUBJECT:

Draft Audit Report – Most Security Controls Were
Adequate at the New Lockbox Facility in Cincinnati, but
Some Improvements Are Needed (Audit No. 200230022)

I reviewed the draft report and agree with your recommendations. Our specific comments are attached. Your report accurately reflects that the bank was substantially compliant with Lockbox Processing Guidelines (LPG) and recognizes that some areas need improvement. In 2002, we implemented additional security measures to mitigate risks in all our lockbox facilities.

In support of the LPG, our Agency-Wide Shared Services (AWSS) will work with Wage and Investment (W&I), Small Business/Self-Employed (SB/SE), and the Financial Management Service (FMS) by reviewing adherence to physical security guidelines when FMS performs announced and unannounced site visits. AWSS will also provide background investigation and fingerprint screening for employees and vendors working at lockbox facilities. I want to assure you we are making every effort to provide a secure environment for payment processing at lockboxes.

If you have any questions, please contact me or a member of your staff may contact Ronald S. Rhodes, Director, Customer Account Services, at (404) 338-8910.

Attachment

RECOMMENDATION 1

The Directors, Customer Account Services, Small Business/Self-Employed and Wage and Investment Divisions should work with the Deputy Chief, Agency-Wide Shared Services to ensure that lockbox management implements courier controls as required by the LPG.

ASSESSMENT OF CAUSE

Cincinnati lockbox management did not follow the LPG for courier controls.

CORRECTIVE ACTION

W&I will work with SB/SE and FMS to notify the government relationship officer of site non-compliance. A letter will be issued to the site by FMS outlining the transgression. The site must provide FMS an action plan and an implementation date for correction

IMPLEMENTATION DATE

September 2, 2002

RESPONSIBLE OFFICIALS

Director, Submission Processing
Chief, Individual Master File Branch

CORRECTIVE ACTION MONITORING PLAN

Security personnel from the IRS will support FMS to evaluate security compliance by performing announced and unannounced reviews.

RECOMMENDATION 2

The Directors, Customer Account Services, Small Business/Self-Employed and Wage and Investment Divisions should work with the Deputy Chief, Agency-Wide Shared Services to ensure that lockbox management adheres to security requirements for both packaging and tracking of tax material shipments to the Philadelphia Submission Processing Center.

ASSESSMENT OF CAUSE

Cincinnati lockbox management did not ensure adherence to security requirements over the packaging and tracking of materials to the Philadelphia Submission Processing Center.

CORRECTIVE ACTION

W&I will work with SB/SE and FMS to notify the government relationship officer of site non-compliance. A letter will be issued to the site by FMS outlining the transgression. The site must provide FMS an action plan and an implementation date for correction.

IMPLEMENTATION DATE

September 2, 2002

RESPONSIBLE OFFICIALS

Director, Submission Processing
Chief, Individual Master File Branch

CORRECTIVE ACTION MONITORING PLAN

Security personnel from the IRS will support FMS to evaluate security compliance by performing announced and unannounced reviews.

RECOMMENDATION 3

The Directors, Customer Account Services, Small Business/Self-Employed and Wage and Investment Divisions should work with the Deputy Chief, Agency-Wide Shared Services to ensure that lockbox management performs and documents required candling reviews.

ASSESSMENT OF CAUSE

Cincinnati lockbox management did not follow LPG documentation procedures for candling processing. They did not sufficiently document the results of daily candling or make required entries to the candler log for discovered remittances and correspondence. Neither internal nor external reviews identified the oversights in the maintenance of candler logs.

CORRECTIVE ACTION

W&I and SB/SE will work with FMS to notify the government relationship officer of site non-compliance. A letter will be issued to the site by FMS outlining the transgression. The site must provide FMS an action plan and an implementation date for correction.

IMPLEMENTATION DATE

September 2, 2002

RESPONSIBLE OFFICIALS

Director, Submission Processing
Chief, Individual Master File Branch

CORRECTIVE ACTION MONITORING PLAN

W&I and SB/SE will continue to evaluate compliance with the candling requirements during their scheduled peak reviews.